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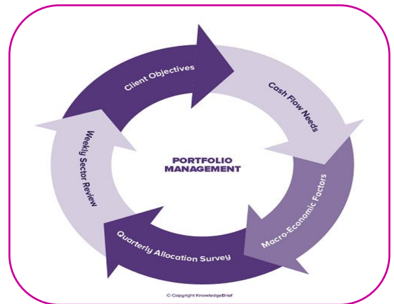
PORTFOLIO MANAGEMENT



Dr. Satyajit Kantilal Shah
I/C principal , Hirachand Nemchand college of Commerce.

ABSTRACT

A portfolio can be defined as different investments avenues namely shares, mutual funds, bonds, gold, real estate, provident fund all combined together depending specifically on the investor's earnings, financial plan, risk appetite and the holding Capacity. It is formed in such a way that it stabilizes the risk of nonperformance of different pools of investments.

KEYWORDS: *portfolio , mutual funds, bonds, gold, real estate, provident fund.*

INTRODUCTION :

Portfolio Management is defined as the art and science of making plans about the investment blend and strategy, toning investments to objectives, asset distribution for investors, and matching risk against performance.

This study includes understanding the act of putting money in various investment avenues available and picking the ones that best meets your overall financial goals. Portfolio management is not only an art but also science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and balancing risk against performance.

ELEMENTS OF PORTFOLIO MANAGEMENT:

Portfolio management is an outgoing process involving the following:

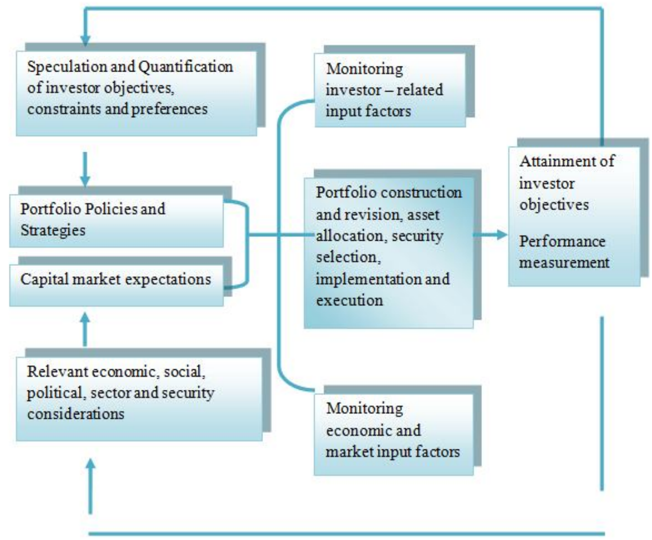
1. Identification of the investor's objectives, constraints and preferences, which will help to formulate the investment policy.
2. Strategies are to be developed and implemented in tune with the investment policy formulated. This will help in selection of assets classes and securities in each class and securities in each class depending upon their risk-return attributes.
3. Review and monitoring of the performance of the portfolio by continuous overview of the market conditions, companies' performance and investors' circumstances.
4. Finally, the evaluation of the portfolio for results to compare with the targets and needed adjustments have to be made in portfolio to the emerging conditions and to make up any shortfalls in achievement and targets

Portfolio management is all about strengths, weaknesses. Opportunities and threats in the choice of debts vs. equity, growth vs. safety and many other tradeoffs encountered in the attempt to maximize return at given appetite for risk. Portfolio management is used to select a portfolio of new product development projects to achieve following goals:

- Maximize profitability or value of portfolio
- Provide balance

- Support the strategy

Chart: Stages in Portfolio Management



Source: J.L. Maginn and D.L. Title- Management Investment Portfolio

Monitoring of these portfolios is a continuous upgrading and changes in asset composition to take an advantage of the market conditions and economic and industry performance. Portfolio monitoring is an ongoing assessment of current portfolio to the goals, changes in investor's preferences, capital market conditions and expectations. The monitoring requires a periodic meeting with investors to know the changes in conditions, continuous review of the investment policy relative to investors' preferences.

The process of managing an investment portfolio never stops. Once the funds are initially invested according to the plan, the real work begins in monitoring and updating the status of the portfolio and the investor's needs.

The first step of portfolio management process is for the investor, either alone or with the assistance of investment advisor; to construct a policy statement is a road map.

In the second step of portfolio management process, the manager should study current financial and economic conditions and forecast the future trends and the third step is to construct portfolio. The forth step is continual monitoring to evaluate a portfolio performance and compare the relative results to the expectations and the requirements listed in the policy statements.

Reviewing valuations of individual's investment on periodic basis is a necessity. It will help the individual to judge which investment avenues are not performing well, and which may perform well. Individual can maintain an excel sheet and update it on a periodic basis, say monthly or weekly. Individual should also segregate the total investment under various options which would help individual to analyze exposure to various sectors.

Factors affecting investment decisions in portfolio management

Hazard Tolerance-Risk alludes to the instability of portfolio's worth. The measure of hazard which the financial specialist is eager to take on is a critical factor. While a few people do turn out to be more hazard opposed as they get more established; a moderate speculator remains chance loath over his life-cycle. A forceful speculator for the most part sets out to go out on a limb for a mind-blowing duration. In the event that a speculator is chance disinclined and he goes out on a limb, he more often than not freeze when stood up to with startling misfortunes and relinquish their venture plans mid-stream and endures enormous misfortunes.

Return needs- This alludes to whether the financial specialist needs to underline development or salary. More youthful financial specialists who are aggregating investment funds will need restores that will in general stress development and higher all out returns, which are fundamentally given by value shares. Retirees who rely upon their venture portfolio for some portion of their yearly salary will need steady yearly payouts, for example, those from bonds and profit paying stocks. Obviously, numerous people may need a mixing of the two some present salary, yet additionally some development.

Investment Horizon: The time skyline begins when the speculation portfolio is executed and closes when the financial specialist should take the cash out. The timeframe you will contribute is significant in light of the fact that it can legitimately influence your capacity to decrease hazard. Longer time skylines enable you to go out on a limb with a more prominent absolute return potential since a portion of that hazard can be decreased by contributing crosswise over various market situations. In the event that the time skyline is short, the financial specialist has more noteworthy liquidity needs some alluring chances of winning higher return must be relinquished and the outcome is diminished in kind. Time skylines will in general fluctuate over the life-cycle. More youthful financial specialists who are just aggregating investment funds for retirement have long time skylines, and no genuine liquidity needs with the exception of transient crises. Be that as it may, more youthful speculators who are likewise putting something aside for a particular occasion, for example, the buy of a house or a kid's instruction, may have more noteworthy liquidity needs. Thus, financial specialists who are wanting to resign, and the individuals who are in retirement and living on their speculation pay, have more noteworthy liquidity needs.

Tax Exposure: Investors in higher tax brackets prefer such investments where the return is tax exempt; others will have no such preference.

Diversification is a strategy to reduce the risk (downside) whereas concentration is a strategy to enhance returns (upside).

Each asset class has a unique degree of risk that accompanies it and different returns generated by it. Even at a certain given point of time, a particular investment might experience a growth in its value while another investment might face a decline and downfall. Keeping your portfolio concentrated on just one or two assets can lead to an imbalance which either tilts towards higher risk and greater returns or towards low risk and meager returns

The primary aim of spreading your money among various asset classes to maximize returns for preferred level of risk, or put in another way, to minimize risk for certain expected rate of return. This is known as diversification.

Diversifying investments into various avenues offers some advantages such as:

1. Mitigates the risks that arise since diversification ensures a mix of high risk and low risk investments thereby keeping the overall risk at sustainable limits.
2. It offers relative stability to the portfolio since if anything untoward were to take place in the financial markets; all of the investments would not be impacted.
3. Spreading your investments across a stream of assets ensures a moderate liquidity as well. If portfolio consists of a fair share of short-term debt instruments, it can help investor to fulfill short term goals by providing a more liquid profile.
4. Within each asset class, investor can further diversify investments which will go long way in reducing the risk further.

Diversification across different unrelated companies, sectors and asset classes is one of the proven risk management strategies. Such diversification helps one reduce the downside risk of the portfolio. Remember, individual components of the portfolio would continue to carry the same risk as earlier, but since different factors have different effect on companies in various businesses or industries or the various asset classes react differently to the changes in environments, the risk of the portfolio comes down.

CONCLUSION

In the current situation where there is quality money in the markets, portfolio management is certainly a preferred method of making investments. With the range of investment avenues available across different schemes, there is something to offer for every individual investor as per the different goals defined. This is one of the highly researched and suitable methods of investment giving attention across different investment avenues available.